

Statement of
The Honorable Linda M. Springer
Controller, Office of Federal Financial Management
Office of Management and Budget
before
The Committee on Government Reform
U.S. House of Representatives
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Thank you, Mr. Chairman, for asking me to testify today. The Administration's asset management initiative is critical to meeting our stewardship responsibilities and improving the overall management of the Federal government.

I would like to share with you the following excerpt on asset management:

[T]here is substantial evidence of weaknesses in the Federal Government's management of assets, including acquiring and retaining unneeded or poorly performing assets, excess holding costs, and ineffective asset disposal. Agencies are hampered in their efforts to identify and correct these problems by the lack of strategies, procedures, information, and incentives needed to manage a wide range of assets.

This could very easily have been taken from the General Accounting Office's (GAO) most recent High-Risk Series. In fact, it was included in the 2002 Federal Financial Management Report published by the Office of Management and Budget (OMB). Accordingly, we agree wholeheartedly with GAO's recent decision to add real property management to its biannual High-Risk list. As GAO wrote, "Many [of the Federal government's] assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration; restoration and repair needs are estimated by agencies

to be in the tens of billions of dollars.” It helps us address major challenges when our colleagues at GAO also recognize and call attention to the severity of the problem.

To understand the magnitude of this problem, consider the following data. According to its most recent financial statements, the Federal government owns \$325 billion in Property, Plant and Equipment and \$192 billion in Inventories and Related Property -- over half a trillion dollars. This is only the property portion of assets reflected on the federal government’s balance sheet. It does not include Defense property, immense land holdings, or other holdings which are reported as stewardship assets. For instance, the Federal Government is the steward of 28% of the United States’ current land mass. It also possesses historic sites and structures, monuments, memorials, cemeteries, as well as valuable items in its museums and libraries.

Much of the Government’s real property no longer serves the needs for which it was acquired in the first place. But current laws and regulations make it difficult, if not impossible, for agencies to maximize the use of its real property investments. Some examples:

- The Mendel Rivers Federal Building is a contaminated, unoccupied 150,000 square foot building (asbestos) in Charleston, South Carolina that requires demolition and site redevelopment. But because of the Federal laws and regulations, the government has been experiencing great difficulty and delays in selling, leasing or developing the property through a public-private partnership. Costs continue to be incurred to maintain the property with no revenues generated. The building is in a highly desirable location with a strong potential for private sector demand.
- The Internal Revenue Service (IRS) currently has a 375,000 square foot highly-secured building on a 37 acre site in need of repairs in Andover, Massachusetts. The agency leases an additional 336,000 square feet in the area. IRS wants to

consolidate its operations from numerous locations into its existing highly desirable site. But because of Federal laws and regulations, it is unable to do so.

- The General Services Administration maintains four functionally obsolete buildings totaling 200,000 square feet of office space on a 39 acre site in an industrial area in Seattle, WA. It is prohibited by law from improving the buildings with business-like strategies that could result in benefits to Federal tenants and the local community.

In well-run companies, meeting stewardship responsibilities for assets in their custody is of paramount importance. Unfortunately, in the Federal government that is not typically the case. The Federal government often does a poor job managing its assets. This is particularly true with property assets.

For these reasons, the Administration has taken several important steps to improve the government's asset management. We are making improved asset management a part of the President's Management Agenda. The expected results of this new focus include expanded asset portfolio tracking and analysis capabilities, comprehensive asset management strategies, increased sales of underperforming assets and reduced maintenance and operating costs. GAO recently credited the Administration for "proposing several reform efforts and other initiatives" to address asset management challenges.

As a precursor to this new focus, we asked agencies to report their management practices for physical and financial assets. Information related to both retention and disposal processes was reviewed to provide insight into the use of best practices in asset management throughout the Executive Branch. The intended result was a baseline from which a framework for enhanced asset management could be established. However, because neither basic data about agency assets nor performance metrics that assess agency asset management practices is in widespread use, agencies were generally unable to provide useful information through this exercise.

The Administration proposed in the last Congress, as part of the Managerial Flexibility Act, legislation to establish these practices and to provide the incentives and tools necessary to bring about sound asset management. Our proposal reforms the Federal Property and Administrative Services Act of 1949 (Property Act) by addressing all phases of an asset's life cycle and would support an integrated portfolio-wide perspective for overall property management decision-making. The bill would provide incentives for managing Federal property by authorizing agencies to: (1) exchange or transfer unneeded property with other Federal agencies; (2) sublease unexpired portions of government-leased property; and (3) outlease assets that must remain in Federal ownership, including underutilized portions of non-excess property to ensure full utilization. This proposal would not alter existing authorities for properties under the current Property Act structure nor would it alter authorities that were granted under other statutes. Rather, it would provide incentives and flexibility in addition to those authorities and grant agencies the necessary tools to manage their assets more effectively and efficiently.

Absent these authorities, we will be unable to improve sufficiently the asset management practices currently in place throughout the government. Even if we improve the data we have on the extent and condition of our assets, we will not have a sufficient range of options with which to execute the best asset management solutions for specific situations.

In the spirit of the Administration's initiative, some agencies have moved aggressively to improve their asset management practices. For instance, the National Park Service is examining its management of the entire life cycle of all its assets. Its goals for FY 2003 include:

- Developing a facility inventory of National Park Service maintained holdings;
- Performing assessments to determine the condition assets are in and the costs to maintain, replace, or repair them; and
- Establishing a baseline facility condition index (FCI) for all assets, which provides an overall rating for the condition of assets.

The Service is employing a Facility Management Software System, a comprehensive asset management tool to process the asset data the Service is collecting. If it meets these goals, the National Park Service will have information it has never had before which it can use to improve dramatically its asset management practices.

But better information is just a first step. With the authorities the Administration has requested, the Park Service could have more options to choose from in deciding how to act on the information it is collecting. We are asking agencies, in the upcoming budget process, to provide us with concrete examples of what they might do to maximize the use of their property through with these new authorities.

One of the hurdles to enactment of the Administration's proposal is the high cost attributed to it by the Congressional Budget Office (CBO). We believe that CBO's scoring of the property sales provision ignores the near certainty that agencies would sell almost no excess property without the incentive provided by the Administration's proposal. Therefore, the additional spending scored by CBO should be offset by the additional property sales receipts that would be generated by the incentives provided in the Administration's proposal. In any event, we believe that the issues raised by CBO can be addressed by making the proceeds from any property sales or from the exercise of new public-private partnership authorities granted under the proposal subject to Appropriations.

Mr. Chairman and Members of this Committee, I ask for your support for this common sense proposal. If we look to the example set for us in the area of erroneous payments, we can see that the combined work of the Executive and Legislative Branches can enhance our management improvement efforts considerably. The Administration launched an initiative to reduce erroneous payments. But it was only able to reach its full impact when this Committee crafted and shepherded through the legislative process legislation that would require erroneous payment reduction efforts of all programs and activities administered by the Federal Government.

This is the kind of partnership I hope we can have in the area of asset management. The Administration has an initiative to improve our stewardship over the Government's holdings. With your help, we can provide Federal agencies the tools they need to meet their asset management responsibilities.